strategic management

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Conceptual Overview

Strategic management is defined as the process of evaluation, planning, and implementation designed to maintain or improve competitive advantage. The process of evaluation is concerned with the external and internal environments. Planning involves developing business models, corporate direction, competitive tactics, international strategy, acquisitions, and collaborative action. The implementation phase requires leadership to build the appropriate organizational structure, develop management culture, control the strategic processes, and steer the organization through corporate governance (Figure 1).

Firms are observed to use two perspectives when going through the strategic management process of analysis: planning and implementation.

Resource-based view. This perspective suggests that a firm's unique internal resources are the critical determinant of strategic competitiveness. If a firm's resources are unique, difficult to imitate, and without close substitutes that competitors can adopt, they will create competitive advantage. When these conditions are maintained over time, the firm's resources will create the foundations for sustainable long-term competitive advantage.

Industrial organization. This is the second perspective, which assumes that the external environment determines the strategic actions a firm can deploy. The corollary of this concept is that a firm should identify and seek to operate in environments that allow strategic activity creating competitiveness and profitability.

Strategic Management Process

International competition has increased the accessibility that customers have to products around the globe. Intense competition has called for a concerted effort to build strategic action through the process of environmental evaluation, developing a set of strategic plans and implementing them.

Phase 1: Strategic evaluation. The strategic management process starts with an in-depth evaluation of the internal organizational environment and the external environment. The evaluation is a component of SWOT analysis (internal strengths and weaknesses, external opportunities and threats).

The main components of an internal analysis are the firm's resources (such as premises, machinery, financial capital, human capital, and distribution networks), which can be combined and developed into capabilities. Examples of capabilities are

- developing innovative technology products,
- reducing the time to market,
- creating more efficient distribution channels and retail outlets,
- capturing the consumer's attention through marketing, and
- managing customer relationships for long-term brand loyalty.

Capabilities are converted into core competences, which are difficult to imitate and lead to a position of competitive advantage. An internal analysis evaluates how they can be developed to continue creating competitive advantage for the firm.

The external macroenvironment consists of variables that are beyond the control of an organization, but require analysis in order to realign corporate and marketing strategy to shifting business environments. Firms are affected by forces that can be political, economic, social, or technological (summarized in the mnemonic PEST) as well as legal, ecological, demographical, ethical, or regulatory.

Phase 2: Planning strategic activity. A comprehensive set of strategic plans would include a roadmap for the firm's business-level, corporate-level, competitive, international, collaborative, and acquisition strategies:

1. **Business strategy** is formulated around the customer perspective and aim for leadership and differentiation in both product and pricing policies. The business-level strategy defines which customer segments and needs will be addressed, and how the customer need will be satisfied.

Wiley Encyclopedia of Management, edited by Professor Sir Cary L Cooper.

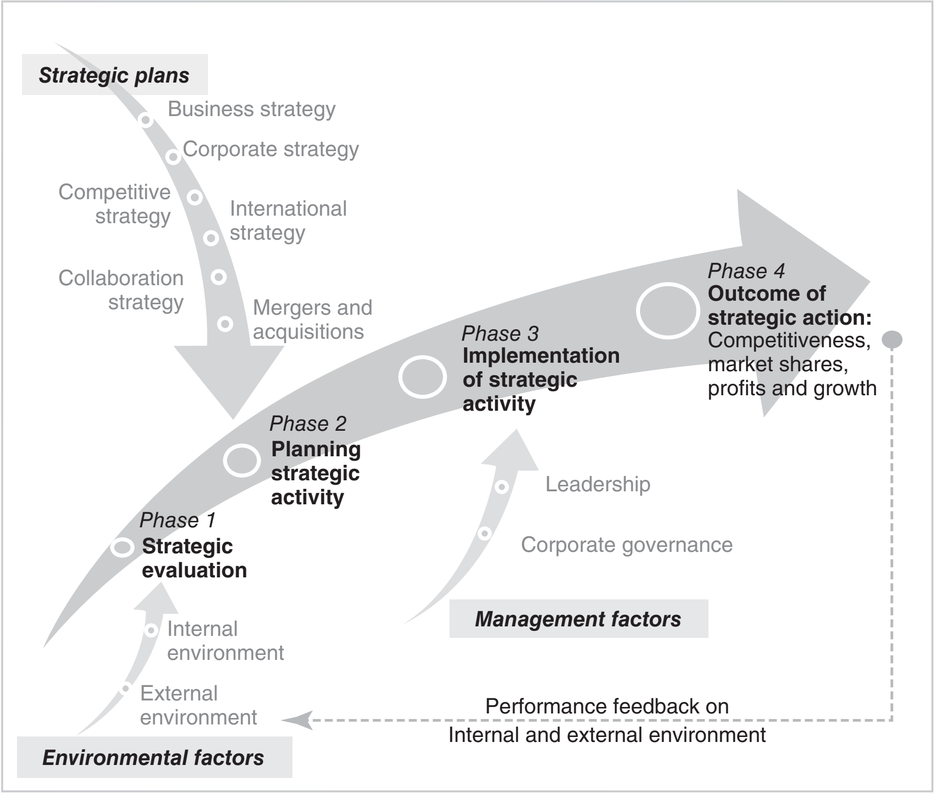

Figure 1 Components of strategic management. *Source*: Adapted from McGee, Thomas, and Wilson (2010) and Hitt, Ireland, and Hosskisson (2012).

2. **Corporate strategy** defines how the firm can widen its scale of operation from a single business to a portfolio of businesses, operating in international markets. The strategy helps companies with strategic positioning of their products and brand.
3. **Competitive strategy** focuses on how the firm will defend and protect its resources, capabilities, and core competences that have created its current competitive advantage. This part of the plan includes reactive strategies that preserve the current core competences, and proactive responses that develop the firm's competences even further.
4. **International strategy** defines which products and businesses are assigned to different geographic regions and countries. International corporations are observed to use three types of international strategies: national, global, and transnational.

National strategy is created for each country in which the firm operates. The strategy is sensitive to the national context and builds on the knowledge of the local competitive landscape. It defines the products, pricing policies, distribution strategies, and advertising campaigns for each country. National strategies may include country-specific procurement policies, manufacturing, and human resource management. National strategies are instrumental in creating the core competences of a firm which are later aggregated into global and transnational strategies. When a firm operates in several countries, the complexity of handling too many national strategies would lead the firm to introduce a more harmonized global approach.

Global strategy determines the standardization of products and processes across geographic boundaries and harmonizes national strategies into a more homogeneous format. The objective is to reduce the complexity of managing diverse markets, lower the need for local responsiveness, and gain economies of scale. With a global strategy in place, best practices are easier to replicate across different locations. Global strategies work when the customer needs are similar across the different markets. Another prerequisite for a global strategy to work is the standardization of operational and financial reporting, which provides head office with the tools of analysis and control.

Transnational strategy integrates the benefits of both national strategies and global strategies. It aims to emphasize local sensitivity and increasing local responsiveness while standardizing operations in different regions in order to gain from economies of scale. The duality of the strategy makes it difficult to conceptualize and implement. Successful transnational strategies are built around a strong common vision for local orientation and an equally strong operational infrastructure which is common across different countries. It requires a substantial investment in infrastructure and managerial resources.

HSBC has embraced the role of "world's local bank," which epitomizes the essence of transnational strategy. However, post the recession in 2011 the bank declared it would have to abandon the concept as costs to maintain an intensive local sensitivity was spiraling. Lower profit margins were placing pressure on the firm to focus more on operational efficiency and standardization across all geographic regions.

5. **Collaboration strategy** is based on both competition and cooperation between a firm and its competitors, suppliers, distributors, partners, and regulators. The most common motives for firms to engage in collaboration are to develop larger markets, improve industry standards, spread the costs of research and development, and increase consumer awareness for the benefit of all the industry players.

   In the communications industry, Vodafone, T Mobile, and Orange, among others, cooperate to maintain interconnected telephony platforms, which in turn generate a larger subscriber base for the industry. Cooperation in telecommunications is ubiquitous. It created compatible communications networks, uniform technology standards (such as global system for mobile (GSM), universal mobile telecommunications system (UMTS), and 3G), and facilitated the coordination of complex subscriber billing across networks and borders.

6. **Mergers and acquisitions strategies** are carried out to improve a firm's competitive position through two main venues. First, economies of scale and synergies are gained from combining similar operations and overhead costs. Second, core competences are bought in, which are otherwise difficult to replicate. Firms would gain access to new products, new distribution networks, established customer bases, and financial resources.

   International mergers and acquisitions were dominant strategies in the 1990s. In more recent corporate history, firms are favoring the more flexible and adaptive collaborative strategies over the high cost and commitment of mergers and acquisitions.

   In international mergers and acquisitions, the inefficient integration and development of the incumbent cultures may cause strategic challenges. During the integration process of the two firms, much attention is given to drawing synergies through cost reduction at the expense of developing new strategies. The leading party in a merger tends to force its managerial culture and mode of operation on the target organization. Managers assume that the methods deployed to run the original organization will function equally well in creating a new strategy involving new corporate partners. The misplaced paradigm often leads to the inefficient distribution of physical resources and tacit capabilities, and eventually leads to strategic drift.

Phase 3: Implementation of strategic activity. It requires two main capabilities: leadership and corporate governance. Strategic leadership is necessary to communicate the vision of the firm and objectives of the strategic plans (outlined above) to the management level. Leadership captures the cognitive side of management which goes beyond financial performance measurement. It can be the source of motivation, empowerment creativity, and innovation, which often are required to steer firms out of challenging situations. Corporate governance is a firm's underlying infrastructure that facilitates and controls strategic action. It provides a monitor for ethical behavior and regulatory compliance. Corporate governance determines the relationships among the shareholders, the board of directors, and the company's management. The traditional mechanisms of corporate governance were the stakeholders, the board of directors, and executive compensation. The triad of control mechanisms has come under criticism and scrutiny. Trends in corporate governance are to include business performance measurement and stakeholder feedback with traditional financial measures of control.

Phase 4: Outcomes of strategic activity. These are visible in increases in revenues, market shares, profits, and return on investment for stakeholders. The outcomes create a feedback loop, which in turn affects the external and internal environment of the organization.

See also *strategic management*

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